Weatherproof Your Portfolio Against Economic Uncertainty With Emera Inc.

Description

Markedly softer commodity prices, a weak Canadian economy, growing geopolitical instability, and an increasingly pessimistic outlook for the world economy are all weighing heavily on global financial markets. In recent months these factors have added to market volatility as traders and investors try to predict what will happen next in an increasingly uncertain world.

I believe the best way for long-term investors to manage this situation is to weatherproof their portfolios by boosting their exposure to defensive dividend-growth stocks. There is no better industry to consider than electric utilities, with one of the standout stocks being **Emera Inc.** (TSX:EMA).

Now what?

Diversified electric utility Emera invests in electricity generation, transmission, and distribution as well as gas transmission and utility energy services. It has investments throughout northeastern North America and in the Caribbean with a focus on obtaining the majority of its revenue from regulated sources. Emera now holds 839,000 electricity customers and assets valued at over $10 billion.

Furthermore, with the electric utility industry being heavily regulated and characterized by steep barriers to entry, Emera possesses a wide economic moat that protects its competitive advantage and future earnings growth. These are particularly important characteristics for a defensive stock.

However, the unchanging demand for electricity coupled with Emera generating over 70% of its revenue from regulated electricity generation are Emera's real strengths. It is also well positioned to take advantage of the secular trend of renewable electricity generation that is placing considerable pressure on coal-fired electricity in North America.

Emera continues to deliver some solid financial results. For the first quarter 2015, its adjusted EBITDA popped a very healthy 16% year over year, while adjusted net income shot up by 17% despite revenue declining by 14%. These solid financial performances, in conjunction with Emera's wide economic moat and regulated revenues, leave it well positioned to deliver the promised 6% compound annual growth rate, or CAGR, for its dividend between now and 2019.

In fact, it is this dividend and the defensive characteristics of Emera's business that make it the perfect candidate to help investors to weatherproof their portfolios against the current storm in global financial markets. Each year for the last nine years running, Emera has hiked its dividend, and this includes increasing its dividend at the height of the global financial crisis, a time when most companies were slashing or even terminating dividend payments.

This highlights not only Emera's commitment to rewarding investors, but also the sustainability of its dividend and the resilience of its business to downturns in the economic cycle. As a result, Emera is now paying a sustainable dividend that is yielding almost 4%. For the reasons discussed, this dividend can only continue to grow, providing investors with a steadily increasing income stream.

So what?

While Emera may not have the long history of dividend hikes of other Canadian electric utilities, it is uniquely positioned to continue rewarding investors because of its regulated revenues and diversified assets. This makes it a core defensive stock for any portfolio, particularly in the current environment, where a range of domestic and global economic factors are causing market volatility to grow.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

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